

DOCKET FILE COPY ORIGINAL

# Keep America Connected!

National Campaign for Affordable Telecommunications

202-842-4080

P.O. Box 27911, Washington, DC 20005

202-408-1134 Fax

October 20, 1997

Chairman Reed Hundt  
Federal Communications Commission  
1919 M Street  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**RE: Comments of Keep America Connected  
CC Docket No. 97.208**

Dear Chairman Hundt,

We are writing to urge you to approve BellSouth's 271 application to provide long distance service in the state of South Carolina.

Keep America Connected has several reasons for supporting the application. BellSouth's application raises the broader question of whether it is in the public's interest to let local phone companies offer long distance services, generating a huge increase in competition in the long distance market. Our research indicates that the answer is yes.

Last week we released a study called, *Request Denied* that the long distance companies and other new entrants in the market are only interested in serving the business market. It showed that only when the local phone companies are allowed to offer long distance services will the residential market become attractive to long distance companies. We enclose the study for your review.

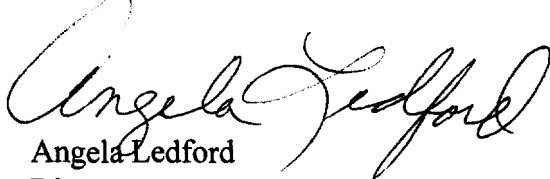
We have also found that the long distance companies are largely pocketing access charge reductions and not offering meaningful cuts in long distance rates to consumers. Real competition, like the local phone company, will force real reductions in long distance rates. Our report on access charges, *In Search of Savings*, is attached.

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BellSouth has already met the test for opening its market to competition as required by the Telecommunications Act of 1996, as indicated by the South Carolina Public Utility Commission's unanimous vote to approve the application. The FCC should not overrule the state's decision. Its time for real competition to flourish throughout the entire telecommunications marketplace. Only when these restrictions on competition are lifted will the real benefits of the Act come to consumers.

Sincerely,



Angela Ledford  
Director  
Keep America Connected

Troy H. Fore Jr.  
Executive Director  
American Beekeeping Federation

Drew Albritton  
Executive Director  
American Association for Adult Continuing Education

13th Episcopal District African Methodist Church  
Bishop H. Hartford Brookins

Allan H. Karp  
Project Coordinator  
Florida Association of the Deaf

Frank Pinter  
Executive Director  
MCIL Resources for Independent Living

Richard Jose Bela, Esq.  
Co-Chairman  
National Latino Telecommunications Task Force

Tom Garman  
Virginia Public Interest Coalition

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# **Keep America Connected!**

**National Campaign for Affordable Telecommunications**

**202-842-4080**

**P.O. Box 27911, Washington, DC 20005**

**202-408-1134 Fax**

**EMBARGOED RELEASE**  
**Friday, October 17, 1997**

**Contact: Angela Ledford**  
**202-842-4080**

## **Residential Consumers Put on Hold by Long Distance Companies.**

### **Large and Small Companies Rush to Compete for Business Customers But They Won't Be Coming Soon to Your Neighborhood.**

(WASHINGTON, DC...October 17, 1997) Large and small long distance companies show little or no interest in serving residential customers in the Southeastern United States according to a preliminary study released today by Keep America Connected. Early results of the study show that while business consumers are realizing the benefits of competition, the prospects of residential consumers seeing lower prices and greater choices are slim.

When consumers called to request service from the companies that are authorized to provide local residential telephone service in Florida, South Carolina and Louisiana, they were discouraged or refused service out-right. Consumers found it very difficult to get a definitive answer out of many of the new competitors. But it is clear than none of the carriers are clamoring for residential business.

"Consumers in all neighborhoods and in all walks of life stand to benefit from the telephone competition we have been promised," said Keep America Connected Director Angela Ledford. "But where is it? If competition for telecommunications services extends to large businesses only, residential customers and small businesses will be left out of the information age."

While consumers are being deprived of choices in local service, their long distance rates continue to be higher than necessary due to the lack of competition in the long distance

-more-

market. And the long distance companies are using their refusal to offer local service to residential customers to try to keep the local Bell companies -- and the benefits of real competition -- out of the long distance market.

The report issued today, called, *Request Denied; Residential Consumers Refused Local Telephone Service by Competitive Phone Companies*, is a preliminary look at local competition in three Southeastern cities -- Orlando, Florida; Spartanburg/Greenville, South Carolina; and New Orleans, Louisiana. A national report is due out later this fall.

The report showed the following regional trends:

- AT&T, MCI and Sprint refused requests for local residential service in all three cities.
- Seven small competitive local service providers operating in the three cities refused requests from residential customers for local telephone service.
- Most small competitors had no plans to provide residential service.
- AT&T, MCI and Sprint all offer local service to businesses in one or more of the three cities.

"These trends indicate trouble for consumers down the road," said Ledford. "If long distance companies are allowed to serve only the most profitable markets, many people, neighborhoods, and even entire communities could be left out of the information age. And if the long distance companies get their way, consumers will also be denied the benefits of Bell company entry into long distance. More must be done to stimulate competition in the residential market and to make sure all consumers benefit."

Keep America Connected, a coalition of 47 organizations representing consumers, labor, and local phone companies, collaborated with local citizen groups and BellSouth to produce the report. A look at 10 other cities around the country will be out later this fall.

For a copy of the report call 202-842-4080.

# ***Request Denied***

Residential Consumers Refused  
Service by Competitive Local  
Telephone Companies

A Preliminary Report from  
***Keep America Connected***

A National Campaign for Affordable Telecommunications

October 17, 1997

## ***Request Denied***

### **Residential Consumers Refused Service by Competitive Local Telephone Companies**

#### **Executive Summary**

Consumers are still waiting to see the benefits of the 1996 Telecommunications Act. The big three -- AT&T, MCI and Sprint -- continue to dominate the long distance market and residential consumers have no options for an alternative local provider. Policy makers are asking "why?" The Act brought with it the promise of a new era of competition in telecommunications. The pro-competitive environment was supposed to bring more consumer choices, lower rates, better service and economic growth. However, the anticipated competition and the resulting benefits for consumers are far from reality.

Keep America Connected<sup>1</sup> sought to find out whether the big three long distance companies and smaller competitive local exchange carriers (CLECs) are offering local service to residential consumers. If so, where? If not, why not? We set out to answer these questions the easy way -- we asked them.


#### **Summary of Findings**

Local residents of New Orleans, Louisiana, Orlando, Florida and Spartanburg/Greenville, South Carolina, called local sales representatives to request local service. Here is what they were told:

- AT&T, MCI and Sprint refused requests for local residential service in all three cities.
- AT&T offers local service to large businesses in all three cities. MCI and Sprint both offer local service to businesses in Orlando, and Sprint serves businesses in New Orleans.
- Seven small, competitive local service providers operating in the three cities refused requests from residential customers for local telephone service.

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<sup>1</sup> Keep America Connected is a coalition of organizations representing older Americans, people with disabilities, rural and inner city residents, people of color, lower income citizens, labor and telecommunications providers. The goal of the Keep America Connected Campaign is to ensure that all consumers, not just big business and upper end consumers, have affordable access to the modern telecommunications infrastructure and services.

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- All the long distance companies were vague about any plans to provide local residential service. Sprint representatives reported no plans to go into the residential market in any of the three cities, except Orlando. Paradoxically, MCI indicated tentative plans to offer residential service in New Orleans and Greenville, where they currently do not offer business service, but indicated no plan to provide service in Orlando, where they are providing local service to business customers.
  - Smaller competitors had no plans to provide residential service.
  - When asked why they were not providing residential local service, none of the carriers' representatives indicated that the local phone company was keeping them out of the market. When representatives answered the question, they only indicated that their current marketing plan was to focus on business customers.

Why are these companies refusing to provide service to residential customers? The long distance companies loudly proclaimed a desire and a commitment to serve residential consumers. What explains their absence from this market?

- Local residential service is costly to provide. Business service has traditionally been priced higher than residential service, offering providers a higher profit margin than the residential market. Without government mandates, competition will enter markets that offer the best chance to turn a profit.
- Press reports indicate that the potential competitors underestimated the difficulty of putting together effective business and marketing plans for offering local service to consumers. News of AT&T and MCI announcements, missteps and refinements of their plans to provide local service has filled newspapers since late in 1996.
- The major long distance companies have a financial self-interest to stay out of residential phone service. The slower the long distance companies move into the local service market, the longer they hope they can keep their most significant competitor, the local phone company, out of the long distance business.

## Major Long Distance Companies Providing Local Service

All three of the major long distance companies are authorized by the state regulators to provide service in these three target cities, and all have signed interconnection agreements with the incumbent provider.

|        | New Orleans |            | Orlando    |            | S/G        |            |
|--------|-------------|------------|------------|------------|------------|------------|
|        | <u>Res</u>  | <u>Bus</u> | <u>Res</u> | <u>Bus</u> | <u>Res</u> | <u>Bus</u> |
| AT&T*  | NO          | YES        | NO         | YES        | NO         | YES        |
| MCI    | NO          | NO         | NO         | YES        | NO         | NO         |
| Sprint | NO          | YES        | NO         | YES        | NO         | NO         |

\*AT&T's digital link service is available nationwide to business customers with T1.5 access (24 phone lines) or greater. This service delivers outbound local calls using existing or new dedicated digital access facilities.

## Small Competitive Local Service Providers

Smaller competitors are carefully targeting markets and almost exclusively serving business customers.

|            | New Orleans |            | Orlando    |            | S/G        |            |
|------------|-------------|------------|------------|------------|------------|------------|
|            | <u>Res</u>  | <u>Bus</u> | <u>Res</u> | <u>Bus</u> | <u>Res</u> | <u>Bus</u> |
| ACSI       | NO          | YES        | NO         | NO         | NO         | YES        |
| Intermedia | NO          | NO         | NO         | YES        | NO         | YES        |
| Cox        | NO          | YES        | NO         | NO         | NO         | NO         |



## The State of Competition in Three Southeastern States

### New Orleans

Nearly 80 companies have signed up to offer local phone service in Louisiana. Although ten of those companies are fully certified, only two are actually marketing service to small pockets of business customers in a handful of the states' largest cities.<sup>2</sup>

"Residential phone customers, who make up the bulk of the local phone market, will have to wait for the long distance giants to enter the market before they have a choice among local service providers, industry observers say. Those are the companies with the resources to serve large numbers of residential customers at a low profit margin."<sup>3</sup> "There is more money involved and more concentration [in the local business market.] In the Central Business District in New Orleans, for example, there is more money to be made than, say, one street of residential customers in Baton Rouge," said Janet Britton, a staff attorney for the Public Service Commission.<sup>4</sup>

Eatel, an independent telephone company serving rural Louisiana, is focusing on residential customers first in Baton Rouge. Eatel has offered local service for nearly two months, although it is not advertising or promoting the service widely. Press reports indicated that AT&T "should" be offering services in New Orleans in 1998 and will enter the market as a reseller.

Consumers called customer representatives from various companies to ask about local service. ACSI offers local business service but was up front in stating that they do not plan to offer residential service. One representative of Cox claimed that residential service would be offered after January 1, 1998, another said that residential service "was possible."

| <u>New Orleans Consumer Survey Results</u> |                  |                     |                                    |
|--|------------------|---------------------|------------------------------------|
|  | Serving Business | Serving Residential | Plans to Offer Residential Service |
| AT&T                                       | Yes              | No                  | "Soon."                            |
| MCI  | No               | No                  | After Jan. 98                      |
| Sprint                                     | Yes              | No                  | No                                 |
| ACSI                                       | Yes              | No                  | No                                 |
| Cox  | Yes              | No                  | "It is possible"                   |

<sup>2</sup> Keith Darce, "Competition is Calling," *The Times Picayune*, August 17, 1997, pg. F1.

<sup>3</sup> Ibid.

<sup>4</sup> Tom Guarisco, "New Local Phone Service Starts in Baton Rouge," *The Advocate*, April 1, 1997, p.1C.

## Orlando, Florida

Over 100 companies are authorized to provide local phone service in the state of Florida and more than 70 interconnection agreements have been signed between CLECs and the incumbent local exchange carriers (ILECs).

Those companies actually offering local service are again focusing on the business market. MCI offers facilities-based service to businesses in Tampa, Orlando, Ft. Lauderdale and Miami.<sup>5</sup> Sprint, Intermedia, MFS, ACSI and AT&T are also offering local service to business customers in limited areas.<sup>6</sup> AT&T says that it plans to go after both residential and business customers but so far only business customers have been targeted. AT&T plans to test local residential service in the Southeast first in Georgia. If that goes well, they might begin offering service toward the end of the year.<sup>7</sup>

Teleport Communications Group (TCG) says that it will offer local phone service in the Tampa Bay area and Orlando. Although TCG plans to build its own fiber networks in these cities, the company will likely resell services from other providers until the network is built.<sup>8</sup> The company did not specify whether it will offer residential services.

Consumers who called companies to inquire about local residential service received a variety of responses. Sprint representatives skirted around the issue of why they provide business but not residential service until they finally just said that Sprint will offer residential service "soon." AT&T diplomatically said that they plan to provide local service when they can offer the value and services desired.

| <u>Orlando Consumer Survey Results</u> |                  |                     |                                    |
|--|------------------|---------------------|------------------------------------|
|  | Serving Business | Serving Residential | Plans to Offer Residential Service |
| AT&T                                   | Yes              | No                  | "Possibly in future."              |
| MCI                                    | Yes              | No                  | No plans                           |
| Sprint                                 | Yes              | No                  | "In the process."                  |
| Intermedia                             | Yes              | No                  | No plans                           |
| Cox                                    | No               | No                  | No plans                           |

<sup>5</sup> "MCI Seeks Cuts in Local-Competition -- Chilling Costs," MCI Communications Corp. Company Press Release, August 28, 1997.

<sup>6</sup> Frank Ruiz, "You're Going to do What?" *The Tampa Tribune*, August 3, 1997, p. 1.

<sup>7</sup> Patricia Horn, "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, p. 3D.

<sup>8</sup> Paul Abercrombie, "AT&T Joins Local-Service Bandwagon," *Tampa Bay Business Journal*, January 24, 1997, Vol. 17, No. 4, p. 1.

## **Spartanburg/Greenville, South Carolina**

Fourteen companies in South Carolina have filed for and received approval from the Public Service Commission to offer local phone service and fifty-nine interconnection agreements have been signed. However, only three companies, including ACSI and Intermedia, are actually offering local service and then only to a small number of business customers.

These upstart local service companies plan to focus most of their resources on high volume business accounts, ignoring the residential community. When asked what he would tell residential customers, Carl Jackson, director of local exchange services for Intermedia, said, "[I'd] tell them don't wait on [us] for the time being: it's strictly a business focus now."<sup>9</sup> ACSI spokesman James Falvey echoed that sentiment saying that "the economics aren't there right now for us to provide residential service."<sup>10</sup>

The big long distance companies, AT&T, MCI and Sprint, have all been authorized to offer residential local phone service, but only MCI plans to do so. Moreover, at least one CLEC has the facilities to provide local service but has no intention to serve residential consumers.<sup>11</sup>

| <b><u>Spartanburg/Greenville Consumer Survey Results</u></b> |                         |                            |   |
|--|-------------------------|----------------------------|---|
|  | <b>Serving Business</b> | <b>Serving Residential</b> | <b>Plans to Offer Residential Service</b> |
| AT&T   | Yes                     | No                         | No set plan                               |
| MCI  | No                      | No                         | Plans to offer both in next few months    |
| Sprint   | No                      | No                         | None                                      |
| ACSI   | Yes                     | No                         | No plans                                  |

<sup>9</sup> Andrew Meadows, "Competitors Stay Out of Local Phone Market," *The State*, July 18, 1997, p. B7- B11.

<sup>10</sup> Ibid., at B7.

<sup>11</sup> Ibid.

## Why Not Offer Residential Service?

### The Business Plans of the New Entrants

The debate over the slow pace of competition in local service has been focused on the actions of the ILECs. Equally, if not more important, is the strategic planning, capital investment and management decisions of the potential competitors. While there was a great deal of speculation and enthusiasm during the time Congress was working to pass the 1996 Telecommunications Act, the reality of the costs of doing business has toned down the rhetoric.

### **The Competitors: The Big Dogs**

Major long distance companies like AT&T, MCI and Sprint predicted during the debate over the 1996 Act that they would be serving huge chunks of the local market by now, yet they have moved surprisingly slowly.<sup>12</sup>

AT&T made its big splash in January 28, 1997, when it announced that it would begin offering local phone service on most outbound calls for any business dialing up bills of \$2,500 a month or more in 35 states.<sup>13</sup> Many analysts found that offer disappointing, expecting perhaps a partnership announcement with GTE. Later it appeared that AT&T's strategy for entry into the local market involved a merger with SBC Communications.<sup>14</sup> That idea was quickly quashed by Federal Communications Commission Chairman Hundt, and ever since AT&T's approach to entering the market has seemed murky. Currently, AT&T provides local residential service only in Sacramento, California, Libertyville and Waukegan, Illinois and Grand Rapids and Kent County, Michigan. It provides both business and residential service in Connecticut and Georgia.

Of the interexchange carriers (IXCs), MCI has been the most unapologetic in its strategy of going after business customers first. MCI has stated that its "long-term plans don't include penetrating below the top 30% of residential customers."<sup>15</sup> MCI intends to build some of its own facilities, but does not plan to build local networks nationwide. Instead, MCI will pursue business customers through a combination of strategies -- resale, facilities and unbundled networks.<sup>16</sup> The company has launched local service for mid-sized to large businesses in 25 markets (21 over its own networks) so far including Atlanta, Chicago, Los Angeles, New York, and Seattle -- and has announced plans to be in 31 to 60 markets by year end, depending on what newspaper you read. It only offers limited residential service in California, Illinois, and New York.

<sup>12</sup> Andrew Kupfer, "The Telecom Wars," *Fortune*, March 3, 1997, p. 136.

<sup>13</sup> Patricia Horn, "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, p. 3D.

<sup>14</sup> Richard Siklos, "Crybaby Bells," *The Financial Post*, August 2, 1997, Sec. 1, p. 7.

<sup>15</sup> *Washington Post*, November 10, 1996.

<sup>16</sup> Carolyn Hirschman, "The Big Three," *Telephony*, June 2, 1997.

Sprint has filed for regulatory approval to provide local service in 47 states and the District of Columbia. It has begun to serve large business customers in Orlando, Florida. Sprint has said that it intends to size up local markets carefully, "We're not going to throw dollars at what might be. When we go into a city we'll know which customers we're going after, and that will determine where we build or lease facilities," said Sprint President D. Wayne Peterson.<sup>17</sup>

### **The CLECs: The Feisty Pups**

In addition to the long distance carriers, dozens of other companies are entering the local business service market. The CLECs seem to agree on a basic strategy for entering the long distance market -- building their own network infrastructures. In terms of marketing strategies, most of the CLECs say they plan to target small to medium-sized businesses. Although focused on the business market, many CLECs may pick up some residential business indirectly through IXC partnerships. AT&T just announced a new competition strategy involving the franchising of the AT&T brand name and marketing rights to affiliated carriers in wireless and local-phone services. The company has been talking with numerous alternative local exchange carriers to carry AT&T's traffic under the AT&T brand in competition with the local Bell companies and GTE. Potential partners for this first-time franchising of the AT&T brand name include small, independent phone companies, electric utilities and even cable television companies.<sup>18</sup>

### **Conclusion: Who Wins? Who Loses?**

This preliminary report on the state of local competition revealed disturbing trends that prompt the need for further examination on a national scale. If the trends found in these three cities continue, there will be definite winners and losers in the competition game. The interests that stand to win include the business consumers, the long distance companies and the competitive access providers. The losers are residential consumers.

There is no doubt that competition has come to the business market. In urban business districts, the large long distance companies are working to capture customers by combining their local and long distance bills and bundling other services. In the cities surveyed in this report, it is the business customers that are the primary, if not exclusive, focus of both the large long distance companies and the smaller CLECs.

By delaying their entry into local service, the IXCs have kept their market, long distance, closed to the regional Bell companies. The Bell companies would bring a level of competition to the long distance market greater than that of smaller companies and resellers, which could force prices down. Unlike the IXCs, competitive access providers (CAPs) have nothing to gain by delaying their entry into the local service market.

<sup>17</sup> Andrew Kupfer, "The Telecom Wars," *Fortune*, March 3, 1997, p. 136.

<sup>18</sup> John Keller, "AT&T Sets Bold New Business Strategy," *The Wall Street Journal*, September 18, 1997, p. A1.

Therefore, these companies have moved the most aggressively -- swiftly negotiating interconnection agreements and signing up business customers.

As evidenced in this report, consumers are the losers in this stalemate. Bob Jenks, Executive Director of the Oregon Citizens Utility Board, says, "Companies promoted certain things they were going to do as a way to develop political momentum to get the act passed. Then they backed off."<sup>19</sup>

Consumers in high cost rural and inner city urban areas, stand to lose because with no incentives or mandates to provide residential service, the long distance companies will continue marketing primarily to business and some high-end residential users. Rural areas are expensive to serve because of the distances the lines must cover and the cost of the network is spread over such a small number of customers. Inner city urban areas are often costly and difficult to serve because of the high concentration of low income consumers, in old buildings, with old technology and very little business or upper income consumers to help share the cost of the network. These rural and inner city consumers are likely to see few, if any, choice of providers, resulting in less-competitive pricing and fewer incentives for companies to provide them with new services and technology.

Consumers also pay higher long distance rates than necessary because of a lack of competition in the long distance industry. Currently, the big three long distance companies continue to change their prices in lock-step fashion because there is no real competition in long distance. By taking their time in entering local competition, the long distance companies are gradually gaining market share in local service while keeping the local phone companies out of their core business.

Because of the lack of long distance competition, these companies are also cashing in on FCC changes designed to spur competition. Keep America Connected recently produced a report which sought to determine whether residential consumers would save money as a result of the FCC decision to lower access charges, the fees that long distance companies pay to the local phone company to start and complete a call. "In Search of Savings," found that few companies were passing these savings along to consumers. The report concluded that "only increased competition will push the [long distance companies] to pass along these savings."<sup>20</sup>

Competition in all aspects of the telecommunications market is the key to bringing real savings, choices and new products to all consumers. The stalemate in the development of local service competition in the residential market is blocking all the major benefits of the landmark 1996 Telecommunications Act. Policy makers and consumers must demand an end to this standoff.

<sup>19</sup> Roger Crockett, "Phone Reform Seemingly on Hold," *Oregonian*, February 25, 1997, p.1C.

<sup>20</sup> "In Search of Savings: A Look at Long Distance Phone Bills After Access Reform," Keep America Connected, September 24, 1997.

# **Keep America Connected!**

**National Campaign for Affordable Telecommunications**

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**P.O. Box 27911, Washington, DC 20005  
202-842-4080; 202-408-1134 Fax**

## **News Release**

**For Immediate Release  
September 24, 1997**

**For More Information Contact  
Angela Ledford 202-842-4080**

## **Consumers Call on FCC to Investigate Illusive Savings From Access Charge Reductions**

(WASHINGTON...September 24, 1997) Keep America Connected today called on Federal Communications Commission Chairman Reed Hundt to investigate how much of the \$1.7 billion access charge reduction the long distance industry pocketed and how much it passed on to consumers.

Keep America Connected based its request on strong evidence that many consumers are not saving money on their long distance bills despite cuts in access charges, and may even be paying more. In May, the FCC ordered cuts in access charges, the fees long distance companies pay local phone companies for connecting calls. The Commission predicted that the average consumer would save around \$2.00 per month.

"Consumers were promised lower phone bills, but few will see any real savings," said Angela Ledford, Director of Keep America Connected. "Only two companies made any attempt to pass through the savings, others pocketed the savings and even increased their fees."

Keep America Connected's report, "In Search of Savings," shows that long distance companies employed a wide variety of strategies to hold on to the access charge reductions. Companies lengthened daytime calling periods, (the most expensive rates of the day), increased calling card rates and charges and raised the price of directory assistance. With the exception of consumers paying AT&T and MCI's most expensive rates, few others saw any immediate, per-minute savings.

During the access charge proceedings, Keep America Connected and several other consumer organizations appealed to the FCC to require that the long distance companies pass through the access reductions. The results of Keep America Connected's study indicate that, absent a mandate, only greater competition in the long distance market will bring real savings.

"The FCC must open the long distance market to greater competition," Ledford said. "Only a large competitor can bring the kind of competition necessary to force long distance rates down. The entry of the local phone companies would have a dramatic impact on an industry that has been steadily raising rates for the last eight years."

Keep America Connected is a coalition of organizations representing older Americans, people with disabilities, rural and inner city residents, labor and local phone companies.

For a copy of the letter and/or the report, call 202-842-4080.

# ***Keep America Connected!***

**National Campaign for Affordable Telecommunications**

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**PO Box 27911, Washington, DC 20005**

**202-842-4080; 202-408-1134 Fax**

September 24, 1997

Chairman Reed Hundt  
Federal Communications Commission  
1919 M Street MW  
Washington, D.C. 20554

Dear Chairman Hundt,

After a thorough analysis of long distance rates since the July 1, 1997 access charge reduction, we have become very concerned that the long distance industry is not passing those savings along to consumers in the manner that was intended by the Commission. In fact, our analysis indicates that many consumers may see their long distance bills go up.

We are concerned about some far-reaching trends we see in the industry. Only two companies appear to have passed through any of the access charge reductions. Sprint and many other long distance companies made no attempt to pass along the savings. In addition, several companies increased calling card rates and discontinued some of their lowest cost plans. MCI cut its basic rates, but has made many changes that will increase costs to consumers, including higher long distance directory assistance charges and a longer daytime calling period.

Our analysis revealed that:

- Sprint standard rate customers' phone bills likely went up by as much as \$2.11/month. Bills for Matrix, LCI and WorldCom customers on basic rates stayed the same or went up by as much as \$1.45.
- Customers who have subscribed to the heavily marketed flat rate "discount" plans did not, by and large, benefit from the FCC's access charge decision.
- Rates for many carriers' cheapest plans are more expensive now than before access reductions were made.



- By phasing out some discount plans and aggressively promoting others, the long distance carriers may be making up any amount of access savings they passed along to customers.
- Long distance carriers are raising the costs of long distance by extending daytime calling periods, raising fees on calling cards, and charging more for directory assistance.

We believe these findings are particularly important in light of the fact that long distance companies should see access charges go down by \$18 billion over the next five years. In the past, long distance companies have pocketed much of these savings. The effect of this highly publicized first round of rate reductions could indicate the savings consumers can expect in the future are illusory.

We respectfully request your investigation of the pass through of access charges to consumers. We hope you will look at which companies have passed through the savings, what was the aggregate amount of the pass through, and the amount of the pass through offset by fee increases and other revenue raising devices. We enclose a copy of our report for your review.

We appreciate your attention to this matter and look forward to the opportunity to discuss our concerns with you.

Sincerely,



Angela D. Ledford  
Director

cc     Commissioner James Quello  
         Commissioner Susan Ness  
         Commissioner Rachelle Chong  
         Members, Senate Commerce Committee  
         Members, House Commerce Committee

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***Keep America Connected!***  
***A National Campaign for Affordable***  
***Telecommunications***

**Presents**

**In Search Of Savings:**

**A Look at Long Distance Phone Bills**  
**After Access Reform**

**September 24, 1997**

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## Executive Summary

Keep America Connected sought to determine whether residential customers will save money as a result of the FCC decision to lower access charges by \$1.7 billion. Unfortunately, our analysis shows that the long distance industry, by and large, has used a variety of devices to hold on to the money, instead of passing the full amount of savings along to their customers.

Access charges are the fees that long distance companies pay to the local phone company to start and complete a call. Long distance companies argued that these fees kept long distance rates higher than necessary and implied (and, some cases, promised) they would pass along any reduction in these fees to consumers. Keep America Connected worked to keep these fees contributing to quality, low-cost local service – and to make sure consumers received the benefit of any savings reduction in access charges. The FCC failed to enact Keep America Connected's recommendation and here's what happened.

### Summary of Findings

- FCC Chairman Reed Hundt claimed that the “typical” or average residential customer's bill would drop from \$22.50 a month to \$20.65 a month. Keep America Connected's analysis of long distance company rates and found that rates for the FCC's typical caller were just as likely to go up as down.
- Only two of the nation's long distance companies reduced the cost of their “standard” (most expensive) rates.
- Sprint standard rate customers' phone bills likely went up by as much as \$2.11/month. Matrix, LCI and WorldCom customers on basic rates stayed the same or went up by as much as \$1.45.
- Customers who have subscribed to the heavily marketed flat rate “discount” plans did not benefit much from the FCC's access charge decision.
- Rates for many carriers' cheapest plans are more expensive now than before access reductions were made.
- By phasing out some discount plans and aggressively promoting others, the long distance carriers may be making up any amount of access savings they passed along to customers.
- Long distance carriers are raising the costs of long distance by extending daytime calling periods, raising fees on calling cards, and charging more for directory assistance.

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## Introduction

In May, amid great fanfare, the Federal Communications Commission (FCC) announced new rules for universal service and long distance access charges. After months of struggling through the competing claims and demands of the local phone companies, long distance companies, consumer groups, and a wide array of other interest groups, the Commission proudly proclaimed that it had established the rules necessary to implement the 1996 Telecommunications Act and that consumers would save money as a result.

The consumer savings heralded by the FCC were largely the result of reductions in access charges, the fees long distance companies pay local telephone companies to connect long distance calls. Access charges were reduced by \$1.7 billion on July 1, 1997. Since 1991, the major long distance companies, AT&T, MCI, and Sprint, have increased rates in lockstep, notwithstanding the fact that access charges were decreasing (see Chart 1).

In a major departure from past practices, AT&T promised to lower long distance rates.<sup>1</sup> MCI ultimately followed suit.<sup>2</sup> AT&T and MCI reduced their basic or standard rates by 5 percent during the daytime, 5 percent in the evening, and 15 percent at night and on weekends. The nation's third largest long distance company, Sprint, made no such commitment and, to date, has not reduced basic rates to reflect the access charge reductions ordered by the FCC.

FCC Chairman Reed Hundt claimed that the "typical," or average, residential customer would save more than 8 percent on long distance as a result of the Commission's action. According to the FCC the average customer's long distance bill would drop from \$22.50 a month to \$20.65 a month.

## Average Customer Savings

Keep America Connected<sup>3</sup> set out to find out what happened to the "typical" residential long distance customer as described by Chairman Hundt. He/she was hard to find.

Long distance prices are very complicated. Rates vary from company to company and from calling plan to calling plan. The most thorough analysis of long distance prices is prepared

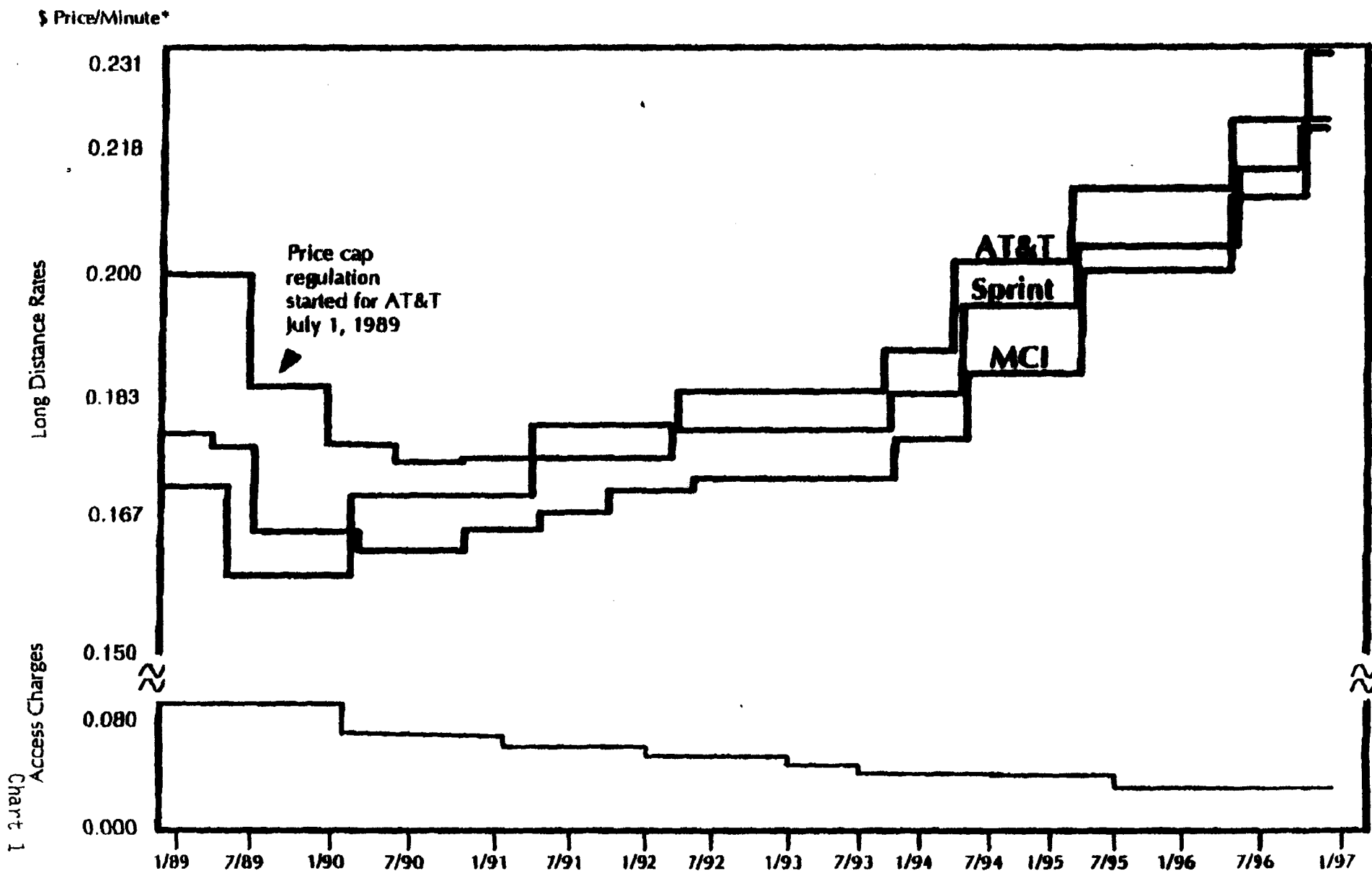
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<sup>1</sup> "AT&T Reaction to FCC Plan to Reform Access Fees, Universal Service," AT&T press release, May 7, 1997.

<sup>2</sup> "FCC Decision Takes First Step Towards Lowering Excessive Access Charges," MCI statement, May 7, 1997

<sup>3</sup> Keep America Connected is a coalition of organizations representing older Americans, people with disabilities, rural and inner city residents, people of color, lower income citizens, labor and local phone companies. The campaign's agenda is to ensure accessible telecommunications for daily life and to enact policies that lead to a modern information infrastructure available to all people.

# Trends in Long Distance Rates and Exchange Access Charges



\*Long distance rates based on the average price per minute for basic service.

Source: WEFA Group and FCC Tariff Filings

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regularly by the Telecommunications Research and Action Center (TRAC).<sup>4</sup> Four times a year, TRAC updates its residential and small business long distance price comparisons that track the significant and subtle changes in long distance rates and services of the nation's leading long distance carriers.

TRAC compares the costs for 18 different long distance calling patterns or baskets<sup>5</sup> for 35 different calling plans<sup>6</sup> offered by seven of the largest long distance companies.<sup>7</sup> The calling baskets go beyond simple calculations of per minute rates. The baskets include a representative sampling of directory assistance and calling card calls to more realistically represent a consumer's bill at the end of the month.

Keep America Connected obtained copies of TRAC's March 1997 and September 1997 residential charts to see just what happened to the FCC's "typical" customer. Of the 631 analyses done by TRAC in March, 46 were in the range of \$20.00 to \$25.00 per month, approximating the FCC's typical customers.<sup>8</sup> We were able to make 30 identical comparisons with TRAC's September 1997 chart.<sup>9</sup> In 9 cases the cost of monthly long distance went up, in 10 cases it stayed the same, and in only 11 cases did the cost of long distance actually go down. [See Table 1]

As you can see, the result is a mixed bag for TRAC's average or typical residential customer. Savings ranged from 42 cents to \$3.03. Potential increases in the typical callers' phone bill ranged from a penny to \$2.11.

## **Standard Rate Customers**

So, who are the residential customers who will reap the benefits of the FCC's new access charge rules? They are, by and large, some, but not all, standard rate customers.

In a report issued earlier this year, the United Homeowners Association (UHA) estimates that approximately 60 percent of long distance residential customers are paying basic rates.<sup>10</sup>

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<sup>4</sup> TRAC is a non-profit, tax exempt, membership organization based in Washington, DC. Its goal is to promote the interests of residential telecommunications customers. Twice a year, TRAC's staff researches residential long distance rates and publishes their findings in Tele-Tips™.

<sup>5</sup> A calling basket represents a hypothetical calling pattern containing a set amount of minutes per month.

<sup>6</sup> A calling plan is a program offered by a long distance carrier providing specific rates and services.

<sup>7</sup> AT&T, MCI, Sprint, Frontier, LCI, Matrix, and WorldCom.

<sup>8</sup> FCC's typical consumer was represented in TRAC's 12 - 18-call call baskets, totalling from 106 to 179 minutes of calling.

<sup>9</sup> Some plans were no longer offered by the carriers, and some were taken off at the request of the carrier.

<sup>10</sup> "Charging for Residential Long Distance Service: Who is Paying Too Much," Prepared for the United Homeowners Association by Dwight R. Lee, Ramsey Professor of Economics and Private Enterprise, University of Georgia, Athens Georgia.

# COMPARISON OF AVERAGE MONTHLY HOUSEHOLD BILLS

## MARCH 1997 - SEPTEMBER 1997

Keep America Connected obtained copies of TRAC's March 1997 and September 1997 residential charts to see just what happened to the FCC's "typical" customer. Of the 631 analyses done by TRAC in March, 46 were in the range of \$20.00 to \$25.00 per month (12-18 calls per month or about 86-179 minutes), approximating the FCC's typical customer. We were able to make 38 identical comparisons with TRAC's September 1997 chart. In 13 cases the monthly cost of long distance service went down, in 16 cases it stayed the same, and in 9 cases it

| Standard Rate Plans  | Average Daily Use |         |         | Heavy Daily Use |         |         | Heavy Night/Weekend Use |         |         |
|----------------------|-------------------|---------|---------|-----------------|---------|---------|-------------------------|---------|---------|
|                      | March             | Sept.   | Diff.   | March           | Sept.   | Diff.   | March                   | Sept.   | Diff.   |
| AT&T Dial-1 Standard |                   |         |         | \$24.12         | \$23.14 | -\$0.98 | \$24.58                 | \$21.55 | -\$3.03 |
| Frontier Dial-1      |                   |         |         | \$24.31         | \$24.31 | 0       | \$23.59                 | \$23.60 | +\$0.01 |
| LCI Basic            | \$24.87           | \$24.87 | 0       | \$23.18         | \$23.18 | 0       | \$23.34                 | \$23.34 | 0       |
| Matrix Dial-1        | \$20.58           | \$21.08 | +\$0.50 |                 |         |         |                         |         |         |
| MCI Dial-1 Standard  |                   |         |         | \$23.99         | \$23.57 | -\$0.42 | \$24.45                 | \$22.34 | -\$2.11 |
| Sprint Standard      |                   |         |         | \$24.12         | \$24.91 | +\$0.79 | \$24.58                 | \$23.49 | -\$1.09 |
| WorldCom MTS         | \$21.29           | \$22.44 | +\$1.15 |                 |         |         | \$22.64                 | \$21.03 | -\$1.61 |

### Flat Rate Plans with Multiple Time Periods

|                         |         |         |         |         |         |   |         |         |   |
|-------------------------|---------|---------|---------|---------|---------|---|---------|---------|---|
| AT&T Simple Rate        |         |         |         |         |         |   |         |         |   |
| Frontier HomeSaver      |         |         |         |         |         |   |         |         |   |
| LCI All America Plan    |         |         |         | \$24.96 | \$24.96 | 0 |         |         |   |
| LCI Two Rate            |         |         |         |         |         |   | \$24.66 | \$24.66 | 0 |
| Matrix SmartWorld       |         |         |         |         |         |   | \$23.94 | \$23.94 | 0 |
| Sprint Sense            |         |         |         |         |         |   |         |         |   |
| WorldCom Home Advantage | \$24.70 | \$26.40 | +\$1.70 |         |         |   |         |         |   |

### Flat Rate Plans with a Single Time Period

|                                   |  |  |  |         |         |         |         |         |         |
|-----------------------------------|--|--|--|---------|---------|---------|---------|---------|---------|
| AT&T One Rate                     |  |  |  |         |         |         | \$21.20 | \$21.20 | 0       |
| AT&T One Rate Plus                |  |  |  | \$24.65 | \$24.65 | 0       | \$20.10 | \$20.10 | 0       |
| LCI Single Rate                   |  |  |  | \$23.51 | \$23.51 | 0       | \$20.26 | \$20.26 | 0       |
| Matrix Flat Rate I                |  |  |  | \$22.44 | \$22.44 | 0       |         |         |         |
| MCI One (after July 15, 1997)     |  |  |  | \$24.93 | \$24.93 | 0       | \$20.68 | \$17.23 | -\$3.45 |
| MCI One (before July 15, 1997)    |  |  |  |         |         |         |         |         |         |
| Sprint Sense Day                  |  |  |  | \$24.30 | \$26.05 | +\$1.75 | \$20.60 | \$21.35 | +\$0.75 |
| WorldCom Home Advantage Easy Plan |  |  |  |         |         |         |         |         |         |

### Discount Plans Based On Consumer Calling Patterns

|                             |         |         |         |         |         |         |         |         |         |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| AT&T True Reach             |         |         |         | \$21.71 | \$22.06 | +\$0.35 | \$22.12 | \$20.78 | -\$1.34 |
| AT&T True Savings           |         |         |         |         |         |         |         |         |         |
| Matrix SmartWorld Basic     |         |         |         |         |         |         |         |         |         |
| MCI Friends and Family      | \$24.03 | \$22.56 | -\$1.47 | \$22.65 | \$21.43 | -\$1.22 |         |         |         |
| MCI Friends and Family Free |         |         |         |         |         |         |         |         |         |
| Sprint Sense with the Most  |         |         |         |         |         |         |         |         |         |
| Sprint The Most II          |         |         |         | \$24.12 | \$24.91 | +\$0.79 | \$24.58 | \$23.49 | -\$1.09 |

### Term Commitment Plans

|   |  |  |  |  |  |  |         |         |         |
|---|--|--|--|--|--|--|---------|---------|---------|
| Matrix SmartWorld Basic w/Discount          |  |  |  |  |  |  |         |         |         |
| MCI One w/Cash Back (after July 15, 1997)   |  |  |  |  |  |  |         |         |         |
| MCI One w/Cash Back (before July 15, 1997)* |  |  |  |  |  |  |         |         |         |
| Sprint Sense w/Cash Back                    |  |  |  |  |  |  | \$22.41 | \$25.02 | +\$2.61 |

### Loyalty/Rewards Plans

|                                  |  |  |  |         |         |         |         |         |         |
|----------------------------------|--|--|--|---------|---------|---------|---------|---------|---------|
| AT&T One Rate w/True Rewards     |  |  |  | \$21.71 | \$22.06 | +\$0.35 | \$21.20 | \$21.20 | 0       |
| AT&T True Reach w/True Rewards   |  |  |  |         |         |         | \$22.12 | \$20.78 | -\$1.34 |
| AT&T True Savings w/True Rewards |  |  |  |         |         |         |         |         |         |

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These are the most expensive rates a customer can pay. Consumers often end up on these plans when they establish local service and are asked to designate a long distance carrier. The consumer may not know about different discount plans and the local phone company only asks them to designate a company, not a plan. Unless the consumer actively requests a discount plan or their long distance company assigns them to a calling plan, they will pay the highest rates allowed.

The July cut in basic rates implemented by AT&T and MCI translated into real savings for many, but not all residential customers on standard calling plans. AT&T and MCI standard rate customers spending less than \$25 a month on long distance saw a reduction in their bills that ranged from \$.42 to \$3.03, a 1.75% to 12.33% decrease.

**But Sprint standard rate customers' phone bills most likely went up by \$.79 to \$2.11. Matrix, LCI and WorldCom customers on basic rates stayed the same or went up by as little as a penny or as much as \$1.45. (See Table 2.)**

The increases were caused not by an increase in the per minute rate, but by other, more subtle changes in the costs of long distance calling. Sprint extended its daytime calling period for basic rates from 8:00 AM to 5:00 PM to 7:00 AM to 7:00 PM, collecting their largest per minute rate for an additional three hours every day. MCI quickly followed suit. Day time rates are the most expensive. As a result, some Sprint customers on the company's standard rate plan will pay more for long distance service.<sup>11</sup>

Other increases for long distance services included:

- MCI and WorldCom raised their long distance directory assistance charges; MCI's LDDA went up 20 cents while WorldCom's went up 19 cents.
- Sprint raised the cost of using a phone card. Sprint's surcharge for using the card went from 30 cents to 60 cents on every call made – a 100 percent increase from the \$0.30 charge reported in TRAC's March 1997 chart.

## **Calling Plan Customers**

Keep America Connected's analysis reveals that residential customers on discount calling plans probably have not seen any benefit from access charge reductions.

Residential customers on the heavily marketed flat rate calling plans will not save much as a result of the FCC's decision. Flat rate plans generally stayed the same. According to spokesman Paul Reiser, residential customers on AT&T's One Rate plan are still paying \$0.15 per minute of long distance service. And Candace Bergen reminds us that Sprint Sense customers are still paying \$0.25 per minute for peak and a dime a minute for off-peak calling.

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<sup>11</sup> Also Sprint customers on discount plans based on standard rates will pay more.



# COMPARISON OF AVERAGE MONTHLY HOUSEHOLD BILLS FOR STANDARD RATES MARCH 1997 - SEPTEMBER 1997

The July cut in basic rates implemented by AT&T and MCI translates into real savings for many, but not all, residential customers on standard calling plans. AT&T and MCI standard rate customers spending less than \$25 a month (12 calls or 86-121 minutes) on long distance saw a reduction in their bills that ranged from \$0.42 to \$3.03, a 1.75% to 12.33% decrease. But Sprint standard rates customers' phone bills most likely went up by \$0.79 to \$2.11. Matrix, LCI, and WorldCom customers on basic rates stayed the same or went up by as little as a penny or as much as \$1.45.

## Average Daily Use (12 Calls / 106 Minutes)

|                      | March   | Sept.   | Diff.   | %      |
|----------------------|---------|---------|---------|--------|
| AT&T Dial-1 Standard | \$25.59 | \$24.25 | -\$1.34 | -5.24% |
| Frontier Dial-1      | \$27.18 | \$27.18 | +\$0.00 | 0.00%  |
| LCI Basic            | \$24.87 | \$24.87 | +\$0.00 | 0.00%  |
| Matrix Dial-1        | \$20.58 | \$21.08 | +\$0.50 | 2.43%  |
| MCI Dial-1 Standard  | \$25.46 | \$24.78 | -\$0.68 | -2.67% |
| Sprint Standard      | \$25.59 | \$27.70 | +\$2.11 | 8.25%  |
| WorldCom MTS         | \$21.29 | \$22.44 | +\$1.15 | 5.40%  |

## Heavy Daily Use (12 Calls / 86 Minutes)

|                      | March   | Sept.   | Diff.   | %      |
|----------------------|---------|---------|---------|--------|
| AT&T Dial-1 Standard | \$24.12 | \$23.14 | -\$0.98 | -4.06% |
| Frontier Dial-1      | \$24.31 | \$24.31 | +\$0.00 | 0.00%  |
| LCI Basic            | \$23.18 | \$23.18 | +\$0.00 | 0.00%  |
| Matrix Dial-1        | \$19.08 | \$19.48 | +\$0.40 | 2.10%  |
| MCI Dial-1 Standard  | \$23.99 | \$23.57 | -\$0.42 | -1.75% |
| Sprint Standard      | \$24.12 | \$24.91 | +\$0.79 | 3.28%  |
| WorldCom MTS         | \$18.77 | \$20.22 | +\$1.45 | 7.73%  |

## Heavy Night/Weekend Use (12 Calls / 121 Minutes)

|                      | March   | Sept.   | Diff.   | %       |
|----------------------|---------|---------|---------|---------|
| AT&T Dial-1 Standard | \$24.58 | \$21.55 | -\$3.03 | -12.33% |
| Frontier Dial-1      | \$23.59 | \$23.60 | +\$0.01 | 0.04%   |
| LCI Basic            | \$23.34 | \$23.34 | +\$0.00 | 0.00%   |
| Matrix Dial-1        | \$19.89 | \$20.53 | +\$0.64 | 3.22%   |
| MCI Dial-1 Standard  | \$24.45 | \$22.34 | -\$2.11 | -8.63%  |
| Sprint Standard      | \$24.58 | \$23.49 | -\$1.09 | -4.43%  |
| WorldCom MTS         | \$22.64 | \$21.03 | -\$1.61 | -7.11%  |